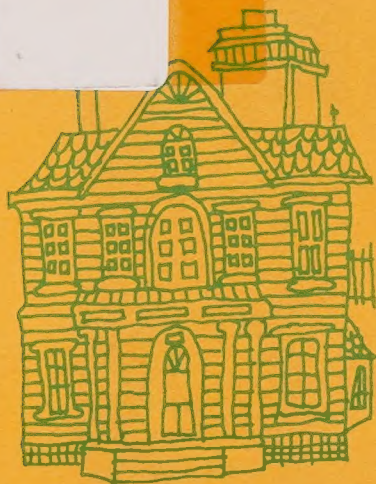


HD
7303
C2
M5
1975
IGSL
UCB

The Economics of Today's Housing Market

Marketing Housing
Housing Finance ~~Area~~



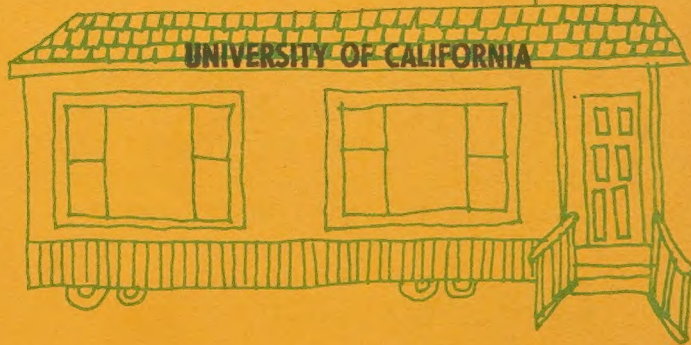
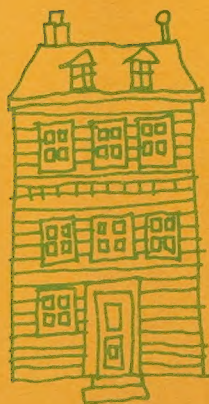
op 2



INSTITUTE OF GOVERNMENTAL
STUDIES LIBRARY

OCT 27 1975

UNIVERSITY OF CALIFORNIA



Midpeninsula Citizens for Fair Housing is a non-profit organization whose purpose is to eliminate barriers to freedom of choice in housing. Additional copies of this booklet may be obtained from MCFH at 457 Kingsley Avenue, Palo Alto, CA 94301 (415-327-1718). Publication was cosponsored by the ABAG Citizen Alliance Program. MCFH takes full responsibility for its contents.



Serving Redwood City through Sunnyvale

Preparation of this booklet was cosponsored by the ABAG Citizen Alliance Program, which does not necessarily endorse the opinions expressed in individual projects or publications.



August, 1975

HD 7303
C2 M5
1975

All Americans are finding it harder and harder to find decent housing. Support for housing programs is shifting from federal subsidy to state and local funding. *IGSL*
UCB

A single-family detached home--long a part of the American dream--is financially out of reach of most Americans. The housing industry is only now emerging from a deep slump.

New approaches to solving housing problems are needed. We are going to have to be creative and serious, practical and idealistic.

This booklet presents material from a November 16, 1974 conference cosponsored by the Midpeninsula Citizens for Fair Housing, the Committee for Corporate Responsibility of the Stanford University Graduate School of Business, and the Association of Bay Area Governments' Citizen Alliance Program. It does not take into account subsequent changes in the housing and mortgage market.

The booklet describes the basic economic issues of today's housing market. It is intended to assist Bay Area public officials and citizens answer the question posed at the housing conference: Where do we go from here?

ECONOMIC SEGREGATION

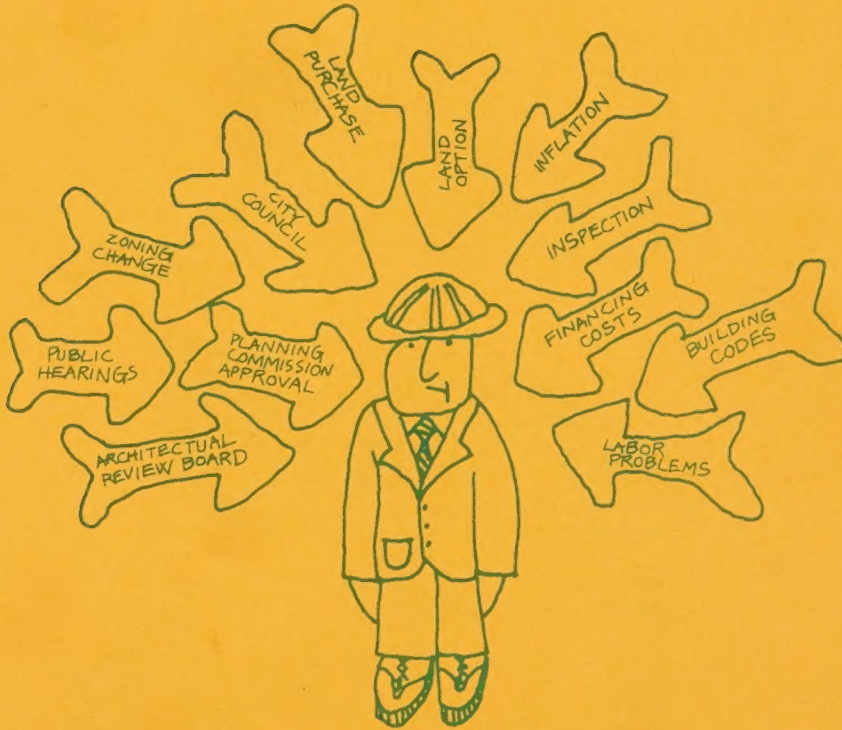
The Bay Area provides employment and living opportunities for five million people. Study of the employment and living patterns shows that many people commute a relatively long distance to their jobs. Some executives, who work in urban centers, choose to live in rural or suburban communities. Many lower paid workers and service personnel commute because they cannot find housing they can afford near their jobs. Whatever the underlying cause, the long commutes result in increased pollution and increased consumption of energy. Most people don't consider commute costs as part of their housing expenses.

Restrictive zoning policies that require large lots or low density and prohibit multi-unit development result in high housing prices that make it possible for only wealthy families to reside in many suburban residential communities.

Although this appears to be a strictly economic phenomenon, it results in homogeneous communities that tend to exclude segments of the population such as single heads of households (usually women), minorities, the elderly, and persons on fixed incomes.

The Costs of Sprawl, a 1974 publication by the Real Estate Research Corporation, identifies *sprawl* as "the most expensive form of residential development in terms of economic costs, environmental costs, natural resource consumption, and many types of personal costs." Do we want and can we afford to perpetuate these living patterns as we consider future development possibilities?

THE DEVELOPER: HASSLED, HINDERED, HELPLESS



Developers are frustrated by time consuming procedures, excessive fees, unpredictable review processes, the hurdles of permits, codes and hearings. Increased coordination among the people who acquire the land, sponsor the development, draw the plans and build could reduce the final cost of housing. Streamlining the governmental processes could result in additional price reductions.

Delays in the approval process are directly translated into additional inflationary costs for labor and materials. The recent high cost of construction loans has made it very expensive for developers to put in streets and utilities. Municipalities can sometimes take advantage of interest rates lower than those a developer must pay to install these required improvements.

INNOVATIVE TECHNIQUES

Sweat equity provides an opportunity for individuals to work under the guidance of a construction supervisor to finish their own homes after the outside work has been done. This concept may be used in *Urban Homesteading*, a federal program that makes a deteriorated house available at less than \$5.00 to a new owner who agrees to improve it. Used in the past, it is again being considered to combat the high cost of labor.

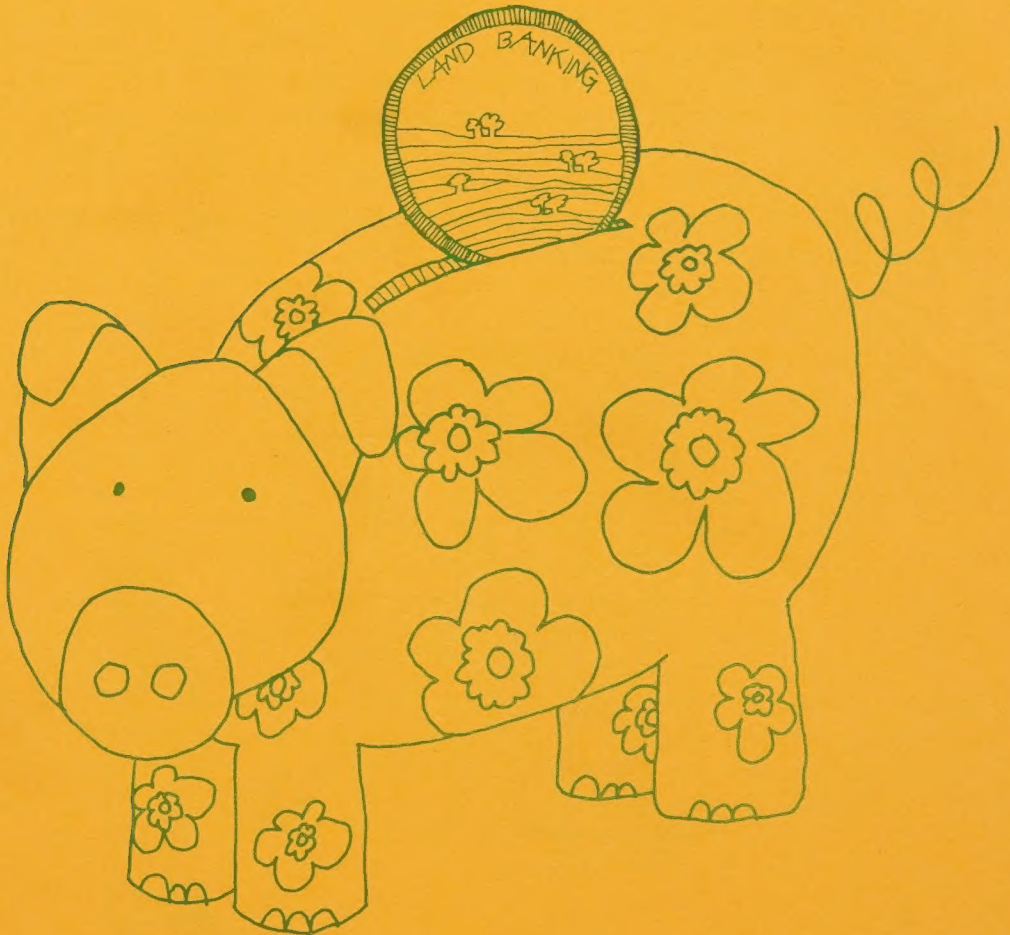


Industrialized housing when produced on a large scale has great potential for lowering housing costs. *Modular construction* and *pre-fab techniques* are examples of industrialized housing that require high volume to produce substantial cost savings.

LAND BANKING

Land banking occurs when a local government purchases lots or acreage and retains ownership until it decides how the land should be used and until it is needed for that purpose.

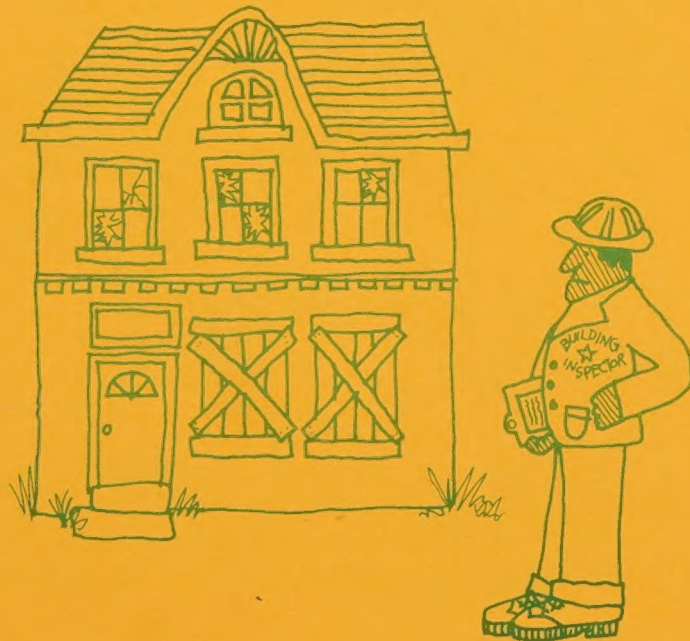
The city, county or district may sell the land to a developer in the future for less than the market value. The developer can be required to pass on his savings in the form of reduced cost to the consumer.



RECYCLED HOUSING

Environmentalists are advocating the containment of development at the same time that cities have virtually exhausted land zoned for residential use. *Conservation of the existing housing stock* has become important to people concerned with the housing needs of low- and moderate-income people. Emphasis is given to utilizing existing housing and code enforcement in the Housing and Community Development Act of 1974.

Some housing in the Bay Area cities is starting to deteriorate. This housing is becoming an important source of lower cost housing, particularly as new housing costs are inflated. Rehabilitation, however, may cause rents to increase sharply if there are no programs to limit them, and if no subsidies are available. Flexibility in the appropriate application of housing and building codes may alleviate some unnecessary expensive modifications which do not affect health or safety. There is a need to accomplish rehabilitation without displacing low- and moderate-income people.



LOCAL SOLUTIONS

Some alternatives to fill the void where federal programs were curtailed or inadequate have been developed. These examples may generate ideas for additional ways to meet housing needs.

The Bank of America developed the New Opportunity Home Loan (NOHL) program in 1968 as part of its effort to respond to the needs and problems of the communities it serves. Home loans of two hundred million dollars have been allocated to nearly 10,000 families. The loans were made to individuals whose credit or homes would not normally qualify for a mortgage. The program has been considered a success; the next phase may emphasize financing rehabilitation and utilization of the existing housing stock.

Oakland Neighborhood Housing Services (ONHS) is a local program designed to revitalize inner city neighborhoods. The project is funded by banks and foundations without federal money. When ONHS is asked to come into a neighborhood, it performs housing inspections, interviews people to determine whether they are eligible for bank loans, and has a \$300,000 revolving loan fund available for those who are not. In one fifteen month period 99 units were completed and an additional 46 units were in progress. This project is part of a nationwide program sponsored by the Urban Reinvestment Task Force.

The Palo Alto Housing Corporation, under contract to the City of Palo Alto, is developing methods to meet the housing needs of low- and moderate-income residents. The Corporation has proposed forming an independent agency to provide and preserve low- and moderate-income housing by purchasing dwelling units as they become available.

After an initial appropriation by the city the agency would be self-supporting with income derived from rents. Three aspects of the program would allow it to offer units at less than market rents: (1) no profit would be added to the cost of the units since they would be owned and operated by a non-profit organization; (2) financing would be obtained from the sale of bonds by the city, the proceeds of which would be loaned to the agency at a rate only slightly higher than the city's rate; (3) turnover profits and refinancing costs would be eliminated since the agency would continue to hold the property over an extended period of time.

A STATE HOUSING AGENCY FOR CALIFORNIA

Legislation to create a *California Housing Finance Agency* was signed into law by Governor Brown on June 27, 1975.

The primary purpose of the Agency is to meet the housing needs of low- and moderate-income persons (up to 120% of median income). The program is to be funded through the sale of *revenue bonds* and *general obligation bonds*.

Not less than 30% of the units financed by the Agency are to be for very low-income households. The Agency could provide loans for rental units directly to housing sponsors or through intermediaries, while loans for owner-occupied units would be administered through a qualified mortgage lender. A \$10 million bond reserve fund is included to assure salability of the revenue bonds. The Agency would be required to submit an annual report indicating the location of assisted units, incomes of households, rent levels, and sale prices. An eleven member board composed of representatives from business, labor, local government, and tenants or tenants' representatives will administer the Agency. The *California*

State Department of Housing and Community Development is to be continued indefinitely, and would be authorized to complete and update the statewide housing plan and to guide preparation of required local housing elements.

THE NEW FEDERAL APPROACH

Persons interested in housing should incorporate a new set of initials into their vocabulary: HCDA (Housing and Community Development Act of 1974). This act replaces several programs such as urban renewal, model cities, FACE (Federally Assisted Code Enforcement), and subsidized housing (Section 23 leased housing, and the continuation of Section 235 and 236) with special revenue sharing block grant funds.

The chart on the following pages summarizes the application requirements and approval processes cities must follow in order to participate.

HOUSING & COMMUNITY DEVELOPMENT ACT 1974

The HCDA relies on localities to make decisions about their use of federal funds & individuals to decide where they will live.

TITLE I

The application is prepared by city staff & approved by the City Council. Citizen input at the initial stages is mandated.

1) An assessment of the overall community development needs, & long & short range objectives

2) A community development plan, consisting of projects selected for immediate implementation (& related to the objectives in part 1)

3) A Housing Assistance Plan must document the housing needs of present and future low-income residents.

The application is sent to ABAG for A-95 review. Citizens' comments are attached to ABAG's report and forwarded to HUD, which has 75 days to notify the city of disapproval or objections.

Block grant money is awarded to the city for financing the Community Development Projects. Use of the funds will be evaluated as part of the second year application.

TITLE II Title II includes Section 8, a housing assistance payment program for lower income renter households. Subsidies are the difference between 15-25% of income & the fair market rent established by HUD. The owner selects the tenants certified by the public housing agency. Subsidies are available for use in new construction, substantially rehabilitated & existing units.

HUD allocates Section 8 units to HUD Area Offices on a formula basis.

HUD Area Offices allocate Section 8 units to counties and block grants entitlement cities. Separate allocations are made for existing, new & substantially rehabilitated units.

HUD Area Offices advertise for proposals. Developers of new or substantially rehabilitated units respond indicating general location and number of units.

The HUD Area Office, requests the local government to comment on the proposal's consistency with the Housing Assistance Plan, or on the need for the housing.

If the HUD Area Office approves a proposal, it contracts with the developer to make housing assistance payments for a specified number of units.

Localities that receive Section 8 existing housing allocations must designate a public housing agency.

The public housing agency: (1) invites lower income households to apply for certificates of participation and (2) advertises the availability of the program to the landlords.

When determined eligible, the household receives a certificate of participation and a briefing on how to find suitable housing.

After the household finds a suitable unit, which may be their current residence, the public housing agency contracts with the landlord to make the housing payments.

COMPLICATIONS OF THE MONEY MARKET

Many prospective home buyers were unable to obtain financing during 1974 due to the high interest banks could receive from other kinds of loans, and because controls previously applied to savings and loans were removed. Federal support (Government National Mortgage Association or GNMA) for the *secondary mortgage* market is needed to increase financing for construction.

Monthly mortgage payments increase with interest rates. The income required for eligibility is four times greater than the increased monthly payment. Writing the loan for an extended period of time (i.e. 40 years rather than 30) only partially offsets the larger monthly payments that result from increasing the interest rate from 7% to 10%.

REGIONAL INPUT

A *regional housing element* for the Bay Area was prepared by the Regional Housing Task Force of the Association of Bay Area Governments. Approval by the Executive Board would constitute a clear commitment by ABAG to improve the housing conditions of the Bay Area's resident.

The proposed regional housing policies address these issues:

- .The large and growing number of the region's households who cannot afford adequate shelter.
- .The impact of local growth control measures on the existing housing stock and on new development patterns.
- .The inequities caused by discrimination in the housing market.

.The inadequacy of available financial and institutional resources to meet the region's housing needs.

The plan element would establish three housing goals for the Bay Area. They would be ensuring maximum free choice in housing, conserving the existing housing supply in accordance with the region's needs, and expanding the housing supply to meet the region's needs.

Policies are recommended for achieving the goals through ABAG's project review function, through service to local governments and through advocacy for regional concerns.

One major objective is the adoption by ABAG and its member cities and counties of a regional housing allocation system. The system would provide that each locality assume its "fair share" of the region's needed low- and moderate-income housing.

U.C. BERKELEY LIBRARIES



C123302224